

## Germany: Inflation adds to arguments for ECB action in September

Lots of data noise coming out of Germany but inflation, as measured by European standards, has dropped, providing further arguments for ECB action in September



According to the just-released first estimate, based on the results of several regional states, German headline inflation came in at 1.1% year-on-year in July, from 1.5% in June. The national inflation measure actually increased to 1.7% YoY from 1.6% in June. This year's strong discrepancy between the national and the European measure of German inflation is mainly caused by methodological changes to the measurement of package holidays in the European measure and changes to the weights of different components in the national measure.

Looking at the available components in several regional states, there were opposing trends in price developments. While prices for heating oil have started to drop compared with last year, reflecting lower global prices, prices for electricity and gas are still up. At the same time, prices for food have started to accelerate, probably early signs of the dry and warm summer, while costs for education and communication continue to fall. Overall, these diverging trends seem to offset each other, keeping core inflation measures broadly unchanged.

The most outstanding development in today's inflation numbers is the sharp increase in YoY

inflation in clothing and shoes. In some states, the rate was even as high as 4% YoY and two to three times as much as in June. One possible and a bit tongue-and-cheek explanation for this development could be a base effect from stores dumping merchandise of the national football team last year after the early exit from the World Cup.

Earlier today, fading consumer confidence sent another warning signal that the industrial slump of the last 12 months, as well as ongoing global uncertainty, have finally started to leave their mark on the domestic economy. Interestingly, German consumers' income expectations actually increased but the willingness to buy dropped to its lowest level since October 2015. It looks as if German consumers are gradually closing their wallets.

Looking ahead, with negative base effects from oil prices and the cooling economic outlook, German headline inflation will, in our view, continue to fluctuate between 1% and 1.5% in the coming months, adding to the arguments for new ECB action in September.

## Author

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.